

ORIGINAL



IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN, AND FOR APPROVAL OF PURCHASED POWER CONTRACT.

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Arizona Corporation Commission

DOCKETED

SEP 27 2004

DIRECT TESTIMONY

OF

GREG PATTERSON

ON BEHALF OF

THE

ARIZONA COMPETITIVE POWER ALLIANCE

September 27, 2004

DOCKETED BY	<i>CAH</i>
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1 **INTRODUCTION**

2 Q. What is your name and by whom are you employed?

3 A. My name is Greg Patterson. I am employed by the Arizona Competitive
4 Power Alliance.

5
6 Q. Would you please summarize your professional and educational
7 background?

8 A. I am a CPA and graduated from the University of Arizona's Accounting
9 Program in 1985. I worked as an accountant and accounting teacher
10 from 1986 through 1990. In 1990 I was elected to the Arizona House of
11 Representatives. I served on the Appropriations and Natural Resources
12 Committees, and went on to chair the House Government Operations
13 Committee. I later chaired the House Banking and Insurance
14 Committee.

15 In 1995, I was appointed by then Governor Symington as Director of the
16 Residential Utility Consumer Office (RUCO). As RUCO director, I
17 participated in over 100 proceedings before the Arizona Corporation
18 Commission. During my RUCO tenure, I also worked as a consultant
19 for a sub contractor to the World Bank and The United States Agency for
20 International Development (USAID), lecturing on various utility-regulation
21 topics in Zambia, Tanzania, Albania, Egypt and Nigeria.

1 In 1999, I left RUCO and accepted a position with the State Senate--
2 serving as Chief of Staff until 2001. In 2001, I accepted my current
3 position as Director of the Arizona Competitive Power Alliance.

4 Q. Would you please describe your background as it relates to this
5 proceeding?

6 A. As Alliance Director, I have participated in all ACC proceedings
7 involving APS or Electric Restructuring that have occurred since 2001.
8 These proceedings include, but are not limited to, the APS Application
9 for Partial Variance, Track A, Track B, the APS Financing Application,
10 and the current Rate Case. Additionally, in my former capacity as RUCO
11 Director, I was a signatory to the 1996 and 1999 APS Settlements. In
12 that capacity, I testified in favor of the 1999 Settlement.

13

14 Q. On whose behalf is your testimony submitted?

15 A. I am testifying on behalf of the Arizona Competitive Power Alliance.

16

17 Q. What companies are members of the Alliance?

18 A. Members of the Alliance are¹: Calpine, Constellation New Energy, Duke
19 Energy North America, LLC, New Harquahala Generating Company,
20 LLC., PPL Montana, LLC, Sempra Energy Resources, Shell Trading,
21 and Southwestern Power Group II, LLC. and Strategic Energy.

¹ The positions contained in this filing represent the views of the Alliance as an organization, but not necessarily the views of any particular member with respect to any issue. Any individual Alliance member may take different positions with respect to any issue.

1

2 Q. What generating stations have been built by Alliance members?

3 A. Arlington Valley Energy Facility I (AVEFI) is a 580 MW gas-fired

4 combined cycle facility owned by Duke Energy.

5 South Point is a generating station owned by Calpine Western Region. It

6 consists of a two-on one combined cycle gas fired plant producing 550

7 MW.

8 Griffith Energy is a generating project owned in equal parts by Duke

9 Energy and PPL. It consists of a combined cycle 2X1 gas fired plant

10 producing 600 MW.

11 Mesquite is a generating project developed by Sempra Energy

12 Resources. The plant consists of two combined cycle gas fired units of a

13 two-on-one configuration producing a total of 1,250 MW.

14 Harquahala is a generating station owned by PG&E National Energy

15 Group. The station consists of three one-on-one combined cycle power

16 blocks. The plants rating is 1,092 MW nominal.

17 SWPG has a CEC for a 1000 MW gas-fired, combined cycle project at

18 Bowie, Arizona.

19 The Sundance Energy Project, developed by PPL has a total gross

20 generation of 450 MW.

21

22 Q. What is the purpose of your testimony?

23 A. I am testifying in support of the proposed Settlement.

1

2 Q. Generally, why do you support the Settlement?

3 A. We believe that the Settlement represents an excellent compromise
4 among a diverse group of parties on a large number of complex issues.
5 All the parties face substantial risk and expense when litigating a case of
6 this complexity. This Settlement resolves our issues in a manner that we
7 believe is in our best interest and in the best interest of the public.

8

9 Q. Generally, why do you believe the Settlement is in the Public Interest?

10 A. Nearly 30 parties participated in the Settlement process and only one is
11 opposed to the final Settlement. Parties who have endorsed the
12 Settlement include: residential, industrial, federal and low income
13 consumer groups, environmental groups, The IBEW, the merchant
14 community, retail providers, Staff and APS. A group this diverse
15 represents the people of Arizona in multiple capacities. I believe that a
16 global settlement that is agreed to by a group this diverse is by definition
17 in the public interest.

18

19 Q. Why was the Alliance a party in this case and what were the Alliance's
20 overall objectives.

21

22 A. The Alliance's central objective in this case--and in the litigation filed
23 since the Variance--is to achieve an environment in which there exists a

1 viable and effective wholesale market into which we can sell power.

2 This Settlement provides certainty, clarity and predictability concerning
3 that market, and provides a post Track A and B platform from which a
4 viable and effective wholesale market can develop and thrive.

5

6 Q. What message does a self-build moratorium send to the wholesale
7 market?

8

9 A. The self-build moratorium provides a strong signal that the Arizona
10 Corporation Commission believes that independent power production is
11 an effective alternative to the traditional vertically integrated utility. The
12 moratorium combined with Arizona's high growth rate provides
13 assurance to the merchant community that independent power will be an
14 even more integral component in Arizona's future power infrastructure.

15

16 Naturally, there are protections built into the Settlement in the unlikely
17 case that the wholesale market is unable to meet Arizona's growing
18 power needs. If the Company's efforts to secure adequate and
19 reasonably-priced long-term resources from the competitive wholesale
20 market are unsuccessful, the ACC may expressly authorize the
21 Company to self-build prior to 2015 as to a particular demonstrated
22 need.

23

1 Q. What benefit does a 1,000 megawatt RFP in 2005 provide the wholesale
2 market?

3
4 A. The 1,000 megawatt RFP in 2005 provides a degree of certainty as to
5 the timing of an initial increment of APS' future needs that will be met
6 from the wholesale market. Knowing the specific amount of capacity
7 needed and the timing of its purchase allows the individual members of
8 the merchant community to effectively plan for the most efficient way to
9 meet that particular need.

10
11 Naturally, there are protections built into this provision of the Settlement
12 as well. If the company/Commission does not believe the results of the
13 RFP are in the best interest of its customers they have the ability to
14 reject all offers and pursue bilateral contracts. Additionally, all
15 renewable resources, distributed generation, and DSM will be invited to
16 compete in the RFP and will be evaluated in a consistent manner with all
17 other bids, including their life-cycle costs compared to alternatives of
18 comparable duration and quality.

19

20

21 Q. Does this conclude your testimony in support of the settlement
22 agreement?

23 A. Yes.